

Ms. Trish Kelly, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road
Sparks, Maryland 21152

Re: AC# 3-MMM-J7 – Magnolia Manor – Moncks Corner, Inc.

Dear Ms. Kelly:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1996 through September 30, 1997. That report was used to set the rate covering the contract periods beginning October 1, 1998.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate changes shown on Exhibit A. You will be notified of repayment terms by that agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

MAGNOLIA MANOR – MONCKS CORNER, INC.

MONCKS CORNER, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1998
AC# 3-MMM-J7**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

December 15, 1999

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor – Moncks Corner, Inc., for the contract periods beginning October 1, 1998 and for the twelve month cost report period ended September 30, 1997, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor – Moncks Corner, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, Cost of Capital Reimbursement Analysis and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor – Moncks Corner, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
December 15, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

MAGNOLIA MANOR - MONCKS CORNER, INC.

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1998
AC# 3-MMM-J7

	10/01/98- <u>11/30/98</u>	12/01/98- <u>09/30/99</u>
Interim reimbursement rate (1)	\$80.57	\$81.32
Adjusted reimbursement rate	<u>76.66</u>	<u>77.41</u>
Decrease in reimbursement rate	\$ <u><u>3.91</u></u>	\$ <u><u>3.91</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

MAGNOLIA MANOR – MONCK'S CORNER, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1998 Through November 30, 1998
AC# 3-MMM-J7

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.90	\$48.65	
Dietary		8.59	9.44	
Laundry/Housekeeping/Maint.		<u>7.45</u>	<u>7.70</u>	
Subtotal	\$ <u>4.61</u>	51.94	65.79	\$51.94
Administration & Med. Records	\$ <u>4.48</u>	<u>5.90</u>	<u>10.38</u>	<u>5.90</u>
Subtotal		57.84	\$ <u>76.17</u>	57.84
<u>Costs Not Subject to Standards:</u>				
Utilities		1.76		1.76
Special Services		2.03		2.03
Medical Supplies & Oxygen		2.93		2.93
Taxes and Insurance		1.29		1.29
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		\$ <u>65.86</u>		65.86
Inflation Factor (3.60%)				2.37
Cost of Capital				6.43
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.31
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.17)
Minimum Wage Add-On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				\$ <u>76.66</u>

MAGNOLIA MANOR – MONCK'S CORNER, INC.

Computation of Adjusted Reimbursement Rate

For the Contract Periods December 1, 1998 Through September 30, 1999
AC# 3-MMM-J7

	<u>Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.90	\$48.65	
Dietary		8.59	9.44	
Laundry/Housekeeping/Maintenance		<u>7.45</u>	<u>7.70</u>	
Subtotal	<u>\$4.61</u>	51.94	65.79	\$51.94
Administration & Medical Records	<u>\$4.48</u>	<u>5.90</u>	<u>10.38</u>	<u>5.90</u>
Subtotal		57.84	<u>\$76.17</u>	57.84
<u>Costs Not Subject to Standards:</u>				
Utilities		1.76		1.76
Special Services		2.03		2.03
Medical Supplies & Oxygen		2.93		2.93
Taxes and Insurance		1.29		1.29
Legal Fees		<u>.01</u>		<u>.01</u>
TOTAL		<u>\$65.86</u>		65.86
Inflation Factor (3.60%)				2.37
Cost of Capital				6.43
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.31
Cost Incentive				4.61
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.17)
CNA Add-On				.75
Minimum Wage Add-On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$77.41</u>

MAGNOLIA MANOR – MONCKS CORNER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-MMM-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,721,075	\$ 188 (5)	\$ 40,258 (4) 1,407 (4) 45 (10)	\$1,679,553
Dietary	417,129	-	7,449 (2) 2,707 (4) 4,931 (9)	402,042
Laundry	122,171	-	1,719 (4)	120,452
Housekeeping	158,846	-	3,239 (2) 1,715 (4)	153,892
Maintenance	80,060	-	2,291 (1) 2,580 (2) 590 (4) 315 (10)	74,284
Administration & Medical Records	345,872	-	23,313 (3) 5,303 (4) 211 (4) 18,438 (8) 22,552 (10)	276,055
Utilities	92,673	-	10,214 (2) 236 (10)	82,223
Special Services	108,661	-	2,191 (4) 11,484 (10)	94,986
Medical Supplies & Oxygen	137,059	-	106 (2)	136,953

MAGNOLIA MANOR – MONCKS CORNER, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1997
AC# 3-MMM-J7

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes & Insurance	61,336	-	989 (10)	60,347
Legal Fees	758	-	76 (10)	682
Cost of Capital	312,979	-	188 (5) 3,032 (6) 3,749 (10) 111 (10) <u>4,900 (11)</u>	300,999
Subtotal	3,558,619	188	176,339	3,382,468
Ancillary	99,471	1,617 (2)	-	101,088
Non-Allowable	188,719	2,291 (1) 21,971 (2) 23,313 (3) 56,101 (4) 3,032 (6) 18,438 (8) 4,931 (9) 39,557 (10) <u>4,900 (11)</u>	-	363,253
Total Operating Expenses	<u>\$3,846,809</u>	<u>\$176,339</u>	<u>\$176,339</u>	<u>\$3,846,809</u>
Total Patient Days	<u>46,787</u>	<u>-</u>	<u>-</u>	<u>46,787</u>
Total Beds	<u>132</u>			

MAGNOLIA MANOR – MONCKS CORNER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MMM-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Nonallowable Maintenance	\$ 2,291	\$ 2,291
	To disallow storage fees not related to patient care HIM-15-1, Section 2102.3		
2	Ancillary	1,617	
	Nonallowable	21,971	
	Dietary		7,449
	Housekeeping		3,239
	Maintenance		2,580
	Utilities		10,214
	Medical Supplies and Oxygen		106
	To disallow expenses not adequately documented and remove nonallowable expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
3	Nonallowable	23,313	
	Administration		23,313
	To disallow administration-purchased services due to lack of documentation HIM-15-1, Section 2304		
4	Nonallowable	56,101	
	Nursing		40,258
	Restorative		1,407
	Dietary		2,707
	Laundry		1,719
	Housekeeping		1,715
	Maintenance		590
	Administration		5,303
	Medical Records		211
	Therapy		2,191
	To adjust fringe benefits and related allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MAGNOLIA MANOR – MONCKS CORNER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MMM-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Restorative Cost of Capital	188	188
	To reclassify vehicle depreciation to the proper cost center State Plan, Attachment 4.19D		
6	Other Equity Nonallowable Accumulated Depreciation Fixed Assets Cost of Capital	28,460 3,032 6,648	35,108 3,032
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Fixed Assets Accumulated Depreciation	146,836	146,836
	To record fixed assets still in use HIM-15-1, Section 130 State Plan, Attachment 4.19D		
8	Nonallowable Administration	18,438	18,438
	To disallow undocumented interest expense HIM-15-1, Section 2304		
9	Nonallowable Dietary	4,931	4,931
	To disallow expenses not properly documented HIM-15-1, Section 2304		

MAGNOLIA MANOR – MONCKS CORNER, INC.
Adjustment Report
Cost Report Period Ended September 30, 1997
AC# 3-MMM-J7

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Nonallowable	39,557	
	Nursing		45
	Maintenance		315
	Administration		22,552
	Utilities		236
	Taxes, Insurance and Licenses		989
	Cost of Capital Depreciation Expense		3,749
	Cost of Capital Amortization Expense		111
	Legal		76
	Therapy		11,484
	To disallow home office expenses not adequately documented HIM-15-1, Section 2304		
11	Nonallowable	4,900	
	Cost of Capital		4,900
	To adjust capital return to allowable State Plan, Attachment 4.19D		
12	<u>MEMO ADJUSTMENT</u>		
	To increase total square footage by 8,387 from 28,059 square feet to 36,446 square feet		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$358,283</u>	<u>\$358,283</u>

Due to the nature of compliance reporting,
adjustment descriptions and references
contained in the preceding Adjustment Report
are provided for general guidance only and
are not intended to be all-inclusive.

MAGNOLIA MANOR – MONCKS CORNER, INC.
Cost of Capital Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-MMM-J7

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.1814</u>
Deemed Asset Value (Per Bed)	34,069
Number of Beds	<u>132</u>
Deemed Asset Value	4,497,108
Improvements Since 1981	141,637
Accumulated Depreciation at 9/30/97	<u>(855,095)</u>
Deemed Depreciated Value	3,783,650
Market Rate of Return	<u>0.067</u>
Total Annual Return	253,505
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	253,505
Depreciation Expense	48,038
Amortization Expense	-
Capital Related Income Offsets	(544)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	300,999
Total Patient Days (Actual Days)	<u>46,787</u>
Cost of Capital Per Diem	\$ <u><u>6.43</u></u>

MAGNOLIA MANOR – MONCKS CORNER, INC.
Cost of Capital Analysis
For the Cost Report Period Ended September 30, 1997
AC# 3-MMM-J7

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$ 7.52
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$11.51</u>
Reimbursable Cost of Capital Per Diem	\$ 6.43
Cost of Capital Per Diem	<u>6.43</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified a condition that we have determined to be subject to correction or improvement. We believe this condition should be brought to your attention.

The provider's accounting records did not adequately support expenses claimed. Many of the items requested were never made available. Some of the items include: payroll registers, the cash receipts journal, census records, audited worker's compensation premiums, support for working trial balance adjustments, invoices, general ledger journal entry support, and all records related to the home office.

HIM-15-1, Section 2304 states:

“Cost information as developed by the provider must be current, accurate, and in sufficient detail to support payments made for services rendered to beneficiaries. This includes all ledgers, books, records, and original evidences of cost . . . which pertain to the determination of reasonable cost, capable of being audited.”

By not maintaining sufficient documentation, to support cost claimed, the provider overstated expenses.

We recommend the provider maintain detailed records which sufficiently support expenses claimed and provide the Medicaid auditors access to all requested records in a timely fashion.